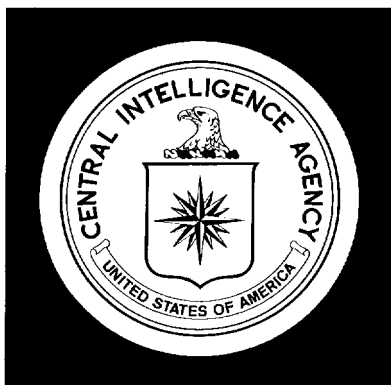


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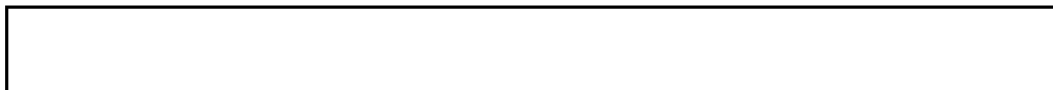
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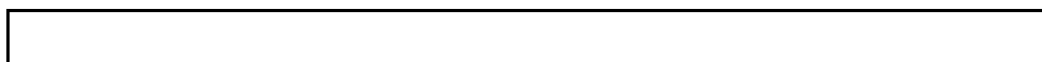
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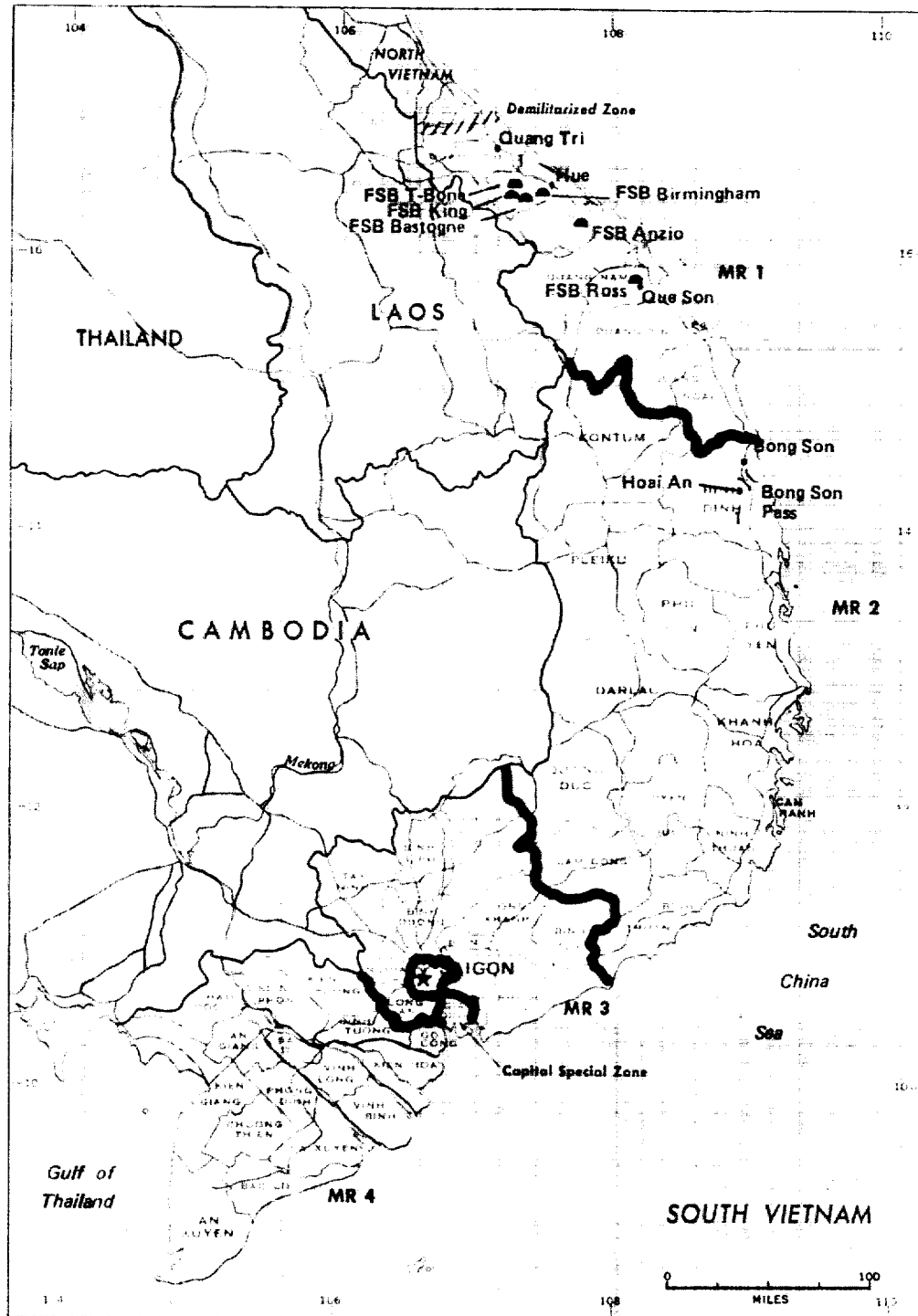
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SOUTH VIETNAM: Fighting remains heavy in northern Military Region 1 as Communist units continue to battle South Vietnamese forces around Quang Tri City and intensify their shelling of government positions in Thua Thien Province.

South Vietnamese Marine units were engaged yesterday in several sharp ground clashes north of Quang Tri City, while government positions south and east of the city continued to be the target of enemy artillery and mortar fire. South Vietnamese Airborne units that were withdrawn from the Quang Tri battlefield on 27 July are moving south to regroup and refit in camps north of Hue. The Marine Division now has complete responsibility for all government combat operations in the northernmost province.

The heaviest fighting, however, took place in Thua Thien Province. Communist artillery units continued heavy shelling of government positions near recently abandoned Fire Support Base Bastogne. They also shelled FSBs T-Bone, King, Birmingham, and Anzio, which ring Hue in an arc from the north to the south.

Farther south, in Quang Nam Province, enemy units continued to press their attack against FSB Ross and have surrounded a regiment of the government's 2nd Division.

The government's counteroffensive in northern Binh Dinh Province met increased enemy resistance yesterday. Meanwhile, heavy fighting is taking place near the district capital of Hoai An, and other South Vietnamese units attempting to push westward out of Bong Son were forced to pull back into the district capital.

In Tay Ninh Province northwest of Saigon, local Viet Cong units went on the attack yesterday and occupied four hamlets in the southern end of the

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province. In the delta, enemy activity increased in intensity, particularly around government positions in Dinh Tuong Province. A prisoner from the enemy's 5th Division--elements of which have been moving into an enemy base area along the Dinh Tuong - Kien Tuong province border--claims that there is heavy infiltration of men and supplies into the enemy redoubt. Recent heavy contacts in this area between South Vietnamese and Communist units tend to confirm the prisoner's information.



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CSCE: The NATO allies are favorably inclined toward the Finnish proposal to open multilateral preparations for a Conference on Security and Cooperation in Europe on 22 November. A number of them, however, are increasingly skeptical about the wisdom of holding the conference itself in Helsinki.

The Finns made their suggestion after the Soviets had told them that of four dates mentioned by Helsinki, 22 November was preferable "because it would suit the Americans." The fact that the Finns consulted first with Moscow and then with some Western allies has heightened suspicions in NATO that the Finns might not be the most neutral hosts for the CSCE. The Germans are particularly put off. Helsinki failed to include Bonn among the Western capitals it notified concerning the CSCE date. This came on top of the untimely Finnish move toward recognition of the two Germanies. Bonn would prefer that recognition be put off until it completes an agreement normalizing relations with Pankow. Several allies were also disturbed by the performance of the Finnish chairman of a recent UNESCO conference in Helsinki. The Finn seemed to go out of his way to accommodate Soviet views on issues related to the CSCE.

Aside from the question of the CSCE site, the allies still have considerable work to do on important organizational questions before they will be ready to open the November discussions. They have not resolved how to relate the CSCE with talks on mutual and balanced force reductions. In addition, they have not decided whether to hold a meeting of the NATO deputy foreign ministers in October, as the US has urged, to wrap up the Western positions. More important, most allies think that the NATO members should caucus during the CSCE preparations, but the French have said that they will refuse to do so because of the "bloc" implications of any such arrangement. How this problem is handled during the early stages of multilateral talks may well determine

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whether the allies will be able to maintain a common front on substantive issues that will arise later.

A consensus among the allies is still lacking on a number of substantive issues. They have not yet agreed on the wording for a declaration on principles governing state relations--a document intended to counter the Brezhnev doctrine. Work on this project is clouded now not only by allied concerns about the implications of the US-Soviet summit declaration--which some feel prejudiced potential Western positions at a CSCE--but also because these concerns have been divulged in the press. The allies have yet to decide how to handle the issue of freer movement of people, ideas, and information. Some allies still want to subsume this question under the rubric of a cultural relations agenda item. Some also want to soften the freer movement terminology to make it less offensive to the East. Work on economic agenda items is proceeding only at a slow pace. [REDACTED]

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PAKISTAN-BANGLADESH: Islamabad apparently plans to recognize Dacca next month.

The Pakistani information minister has announced that recognition will be on the agenda of the National Assembly when it meets in mid-August, and his comments indicate that the government expects a favorable vote.

Recognition of Bangladesh would cause President Bhutto little trouble at home, where the majority of the population seems resigned to the move. He has delayed thus far primarily because recognition is one of the few bargaining chips he has for negotiations with the Indians and the Bengalis. Neither New Delhi nor Dacca, however, is likely to make any significant concession to obtain recognition, and Bangladesh has made recognition a pre-condition for any talks.

Bhutto presumably hopes that recognition will improve the atmosphere for his next summit meeting with Prime Minister Gandhi, probably to be held this fall. He may be more interested, however, in opening the door to discussions with the Bengalis on such issues as the repatriation of prisoners of war, war crimes trials, the exchange of minority groups, and the division of the assets and liabilities the two countries shared before East Pakistan became independent.

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SWEDEN - NORTH VIETNAM: Sweden, which now gives North Vietnam \$5 million a year in humanitarian aid, has announced that it will double the amount.

The under secretary of state will head a delegation to Hanoi next week to discuss the increase, which is largely in the form of hospital supplies and baby food. In addition to this aid, the Swedes have earmarked some \$10 million annually for reconstruction in North Vietnam after hostilities cease.

Sweden has harshly criticized US actions in North Vietnam. Last month Stockholm's ambassador to Hanoi claimed that US bombing had severely damaged dikes and dams. Prime Minister Palme attacked US policy in Vietnam at the Socialist International in Vienna in June, and members of his cabinet have displayed strong support for Hanoi.

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KENYA: Tribal animosities in the army are likely to grow as a result of a recently concluded sedition trial and a high-level military reorganization.

A Kenyan Air Force pilot, recently extradited from Tanzania, has been given a ten-year sentence for his role in an abortive coup plot in 1971. He implicated the former chief justice, the former defense staff chief, and several army and air force officers; all are from the minority Kamba and Luo tribes. A number of lesser figures were tried and sentenced last year in connection with the plot.

The trial was President Kenyatta's way of warning would-be plotters, but tribal bitterness that was responsible for coup rumors in May still is high, and the trial outcome could whip up further tensions. It also may lead to additional arrests in the military, as well as the arrests of the former chief justice and the former defense staff chief, both of whom were forced to resign last year after being implicated in the plot.

Meanwhile, Kenyatta has announced a military reorganization that provides for the transfer and promotion to brigadier of the army's two senior colonels. One of these, a member of Kenyatta's Kikuyu tribe, has been named deputy commander of the army. The other, a member of the rival Kamba tribe, has been removed as deputy army commander and given a senior staff position in the defense ministry. The move places a Kikuyu directly in line to succeed the present army commander, a Kamba, who is scheduled to retire in a few years. The reorganization could easily increase resentment among the Kamba. They once dominated the army and are upset over the growing influence of the aggressive Kikuyu, who now control virtually all other instruments of power in the country.

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Kenyatta is aware of the possible tribal consequences of his moves. The government reportedly hopes to blunt tribal resentment by shifting various battalions, beginning with those units in which tribal feelings are highest. The government also plans to keep troops busy with maneuvers near the Somali border.

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INTERNATIONAL MONETARY DEVELOPMENTS: After heavy and active trading on the London market, the price of gold reached a new high yesterday, rising \$1.90 to \$68.20 a troy ounce. The price has been rising for some time because of heavy industrial purchases in the face of reduced supply from South Africa, whose large balance-of-payments surplus has enabled Pretoria to withhold about one third of its weekly gold production in anticipation of even higher prices. The announcement that the US balance-of-payments deficit in June was larger than expected caused a further sharp gold price acceleration. The recent introduction of additional exchange controls in Western Europe also has induced the price increase because speculators have been left with little alternative than to put available liquid assets into gold. [REDACTED]

* * * *

THE NETHERLANDS: Prime Minister Biesheuvel has narrowed the possibilities in his effort to form a new government. Biesheuvel's five-party, center-right government collapsed on 17 July when the Democratic Socialists withdrew during a fight over next year's budget. In talks on 26 July with the parliamentary floor leaders of the remaining parties, Biesheuvel found insufficient support for a four-party, minority government. He can now try to reconstitute the previous coalition, as two of the parties are demanding, but if he succeeds at this he probably would fail to recapture the prime minister's post. Alternatively, he can form a minority caretaker government of the three confessional parties that were the core of his last coalition, but this would be intended to last only until early national elections. [REDACTED]

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IRAN: Chances for the development of a genuine two-party system have lessened with the resignation of Ali Naqi Kani, secretary-general of the opposition Mardom Party. The resignation, allegedly for health reasons, occurred only six weeks before nationwide city and provincial council elections. Kani had spearheaded an unusually active campaign attacking the policies of the Iran Novin Party, the Shah's current choice to run the government. Kani's aggressive tactics irritated the conservative faction of his party, and the press has speculated that these conservatives forced the secretary-general to step down. The Mardom Party has been the object of increasing criticism from the Shah, who prefers a more leisurely development of the loyal opposition, and the royal court may have had a hand in Kani's downfall. An Iran Novin victory was never in doubt, but Kani's resignation will probably cause the Mardom Party to lose its recently acquired vitality.

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